

# BUSINESS SITUATION

This article was prepared by Daniel Larkins, Ralph W. Morris, and Jennifer S. Argueta.

**T**HE pace of economic activity slowed a little more in the fourth quarter of 2000 than had previously been estimated. According to the “preliminary” estimates of the national income and product accounts (NIPA’s),

- Real gross domestic product (GDP)—a measure of domestic production of goods and services—increased 1.1 percent in the fourth quarter, 0.3 percentage point less than was shown in last month’s “advance” estimate. GDP had increased 2.2 percent in the third quarter and 5.6 percent in the second (chart 1 and table 1).<sup>1</sup>
- Gross domestic purchases—a measure of domestic demand for goods and services regardless of where they were produced—was also revised down 0.3 percentage point, to 1.6 percent. Gross domestic purchases had increased 3.0 percent in the third quarter and 6.5 percent in the second.

As discussed at the end of this article, these revisions reflect the incorporation of revised and newly available source data.

Because the NIPA revisions were relatively small, the overall picture of the economy in the preliminary estimates is quite similar to that in the advance estimates:

- Fourth-quarter GDP growth was the lowest since the second quarter of 1995, when growth was 0.8 percent. On average over the current expansion, which began in the second quarter of 1991, GDP has increased at an annual rate of 3.6 percent.
- The major contributors to the fourth-quarter increase in real GDP were consumer spending and government spending (table 2).<sup>2</sup> The major contributors to the third-quarter increase were consumer spending, exports, and nonresidential fixed investment.

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

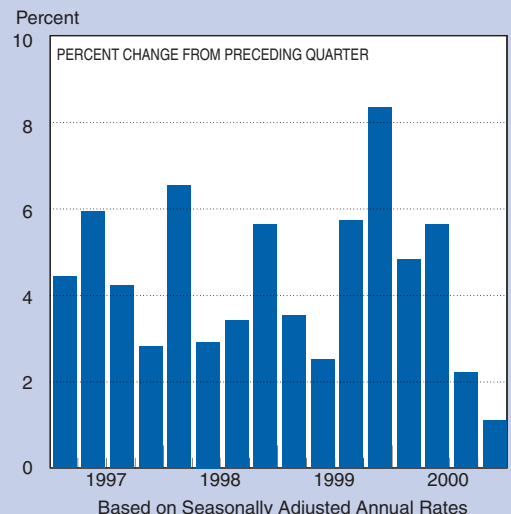
Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

2. In the NIPA’s, consumer spending is shown as personal consumption expenditures, and government spending is shown as government consumption expenditures and gross investment.

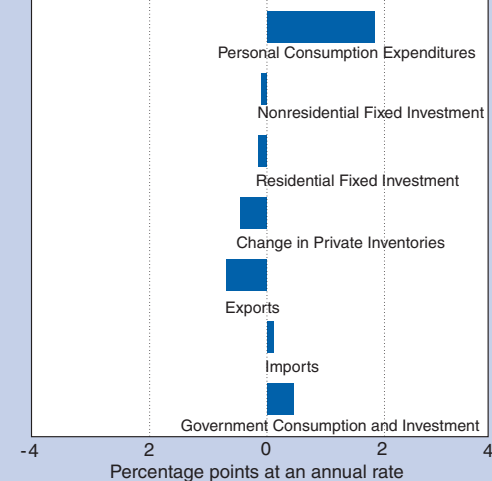
- The production of goods decreased 2.8 percent in the fourth quarter, while production of services and structures increased 3.8 percent and 2.0 percent, respectively (table 3). The drop in goods production was the first decrease in 2½ years and the largest of its five decreases during the current expansion. (Over the expansion, goods production has increased at an average annual rate of 5.1 percent.)

**CHART 1**

## Real Gross Domestic Product



### CONTRIBUTIONS TO 1.1-PERCENT INCREASE IN REAL GDP IN 2000:IV



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- The fourth-quarter deceleration in GDP growth reflected downturns in exports and nonresidential fixed investment and a slowdown in consumer spending. The third-quarter deceleration had reflected downturns in inventory investment and government spending and a slowdown in nonresidential fixed investment.<sup>3</sup>
- Real motor vehicle output decreased sharply in the third and fourth quarters, and real final sales of computers slowed sharply in the fourth quarter after slowing moderately in the third (table

3. In the NIPA's, inventory investment is measured as change in private inventories.

3). However, GDP decelerated in both quarters even if these components are excluded.

- Gross domestic purchases decelerated a little more than GDP.<sup>4</sup> (In the last 8 quarters and in 15 of the last 16 quarters, gross domestic purchases increased more than GDP.)

4. Gross domestic purchases is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

**Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			
	2000	2000							
	IV	I	II	III	IV	I	II	III	IV
<b>Gross domestic product</b> .....	<b>9,394.2</b>	<b>107.7</b>	<b>127.1</b>	<b>50.6</b>	<b>24.7</b>	<b>4.8</b>	<b>5.6</b>	<b>2.2</b>	<b>1.1</b>
Less: Exports of goods and services .....	1,140.7	16.4	37.0	37.0	-18.1	6.3	14.3	13.9	-6.1
Plus: Imports of goods and services .....	1,583.6	40.8	63.5	61.2	-2.8	12.0	18.6	17.0	-7
<b>Equals: Gross domestic purchases</b> .....	<b>9,804.9</b>	<b>129.5</b>	<b>150.7</b>	<b>71.7</b>	<b>38.9</b>	<b>5.6</b>	<b>6.5</b>	<b>3.0</b>	<b>1.6</b>
Less: Change in private inventories .....	59.5	-44.3	42.0	-6.1	-13.0				
Nonfarm .....	54.4	-40.0	39.3	-4.9	-13.0				
Farm .....	5.2	-4.3	2.6	-1.2	.2				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>9,737.0</b>	<b>169.5</b>	<b>110.6</b>	<b>76.8</b>	<b>49.7</b>	<b>7.5</b>	<b>4.7</b>	<b>3.2</b>	<b>2.1</b>
Personal consumption expenditures .....	6,373.7	112.5	47.1	69.2	43.9	7.6	3.1	4.5	2.8
Durable goods .....	896.7	46.4	-11.5	16.5	-6.5	23.6	-5.0	7.6	-2.8
Nondurable goods .....	1,886.4	26.7	16.3	21.5	3.8	6.0	3.6	4.7	.8
Services .....	3,603.3	44.2	39.5	32.6	44.0	5.2	4.6	3.7	5.0
Private fixed investment .....	1,785.5	64.3	46.7	13.7	-5.8	16.4	11.2	3.1	-1.3
Nonresidential .....	1,436.5	63.5	47.2	26.3	-2.3	21.0	14.6	7.7	-6
Structures .....	292.7	13.4	3.0	9.6	6.1	22.3	4.4	14.6	8.8
Equipment and software .....	1,152.1	50.3	46.2	15.8	-10.3	20.6	17.9	5.6	-3.5
Residential .....	359.1	2.9	1.2	-10.3	-3.2	3.2	1.3	-10.6	-3.4
Government consumption expenditures and gross investment .....	1,588.9	-4.4	18.6	-5.5	10.7	-1.1	4.8	-1.4	2.7
Federal .....	550.8	-21.0	21.7	-13.0	5.0	-14.2	17.2	-9.0	3.7
National defense .....	353.6	-19.4	13.6	-8.9	7.4	-19.8	16.9	-9.7	8.8
Nondefense .....	197.1	-1.7	8.2	-4.2	-2.3	-3.3	17.8	-7.9	-4.6
State and local .....	1,037.5	16.2	-2.8	7.3	5.6	6.6	-1.1	2.9	2.2
<b>Addendum: Final sales of domestic product</b> .....	<b>9,326.6</b>	<b>147.5</b>	<b>87.3</b>	<b>55.6</b>	<b>35.7</b>	<b>6.7</b>	<b>3.9</b>	<b>2.4</b>	<b>1.5</b>

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 in this issue.)

**Table 2.—Contributions to Percent Change in Real Gross Domestic Product**

[Seasonally adjusted at annual rates]

	2000			
	I	II	III	IV
<b>Percent change at annual rate:</b>				
Gross domestic product .....	4.8	5.6	2.2	1.1
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	5.03	2.14	2.99	1.88
Durable goods .....	1.79	-.42	.61	-.23
Nondurable goods .....	1.19	.74	.93	.16
Services .....	2.04	1.83	1.46	1.95
Gross private domestic investment .....	.92	3.66	.33	-.69
Fixed investment .....	2.68	1.93	.55	-.23
Nonresidential .....	2.54	1.87	1.02	-.09
Structures .....	.63	.14	.44	.28
Equipment and software .....	1.91	1.73	.58	-.37
Residential .....	.14	.06	-.47	-.14
Change in private inventories .....	-1.76	1.73	-.22	-.46
Net exports of goods and services .....	-.94	-1.00	-.90	-.59
Exports .....	.67	1.48	1.45	-.70
Goods .....	.46	1.37	1.54	-.71
Services .....	.21	.11	-.09	.01
Imports .....	-1.61	-2.48	-2.35	.11
Goods .....	-1.28	-2.26	-1.90	.21
Services .....	-.33	-.22	-.44	-.10
Government consumption expenditures and gross investment .....	-.18	.85	-.24	.47
Federal .....	-.93	.97	-.57	.22
National defense .....	-.86	.60	-.38	.32
Nondefense .....	-.07	.37	-.18	-.10
State and local .....	.75	-.12	.33	.25

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

- Real disposable personal income increased 0.6 percent in the fourth quarter after increasing 2.6 percent in the third and 3.7 percent in the second. The slowdown in the fourth quarter largely reflected the pattern of Federal farm subsidy payments (see last month's "Business Situation").
- The personal saving rate fell to -0.8 percent, the lowest since 1946 (the first year for which quarterly estimates were prepared).<sup>5</sup> The third-quarter rate was -0.2 percent. A negative saving rate indicates that outlays are being financed by the sale of assets, by borrowing, or by using savings

from previous periods. As pointed out in last month's "Business Situation," the negative saving is not surprising in light of the large gains in household wealth and the increased willingness of consumers to finance outlays with debt.

5. The personal saving rate is measured as personal saving as a percentage of current-dollar DPI. The fourth-quarter estimate of the *national* saving rate (which is measured as gross saving as a percentage of gross national product) will be released at the end of March with the "final" estimate of fourth-quarter GDP.

**Table 3.—Real Gross Domestic Product by Type of Product**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2000	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
<b>Gross domestic product</b> .....	<b>9,394.2</b>	<b>107.7</b>	<b>127.1</b>	<b>50.6</b>	<b>24.7</b>	<b>4.8</b>	<b>5.6</b>	<b>2.2</b>	<b>1.1</b>
Goods .....	3,830.6	57.5	76.9	39.0	-27.2	6.4	8.5	4.1	-2.8
Services .....	4,777.6	28.3	59.5	14.8	44.0	2.5	5.2	1.3	3.8
Structures .....	801.6	23.0	-6.1	-1.2	4.0	12.3	-3.0	-6	2.0
<b>Addenda:</b>									
Motor vehicle output .....	319.9	.3	-4.1	-16.1	-19.2	.3	-4.5	-16.9	-20.8
Gross domestic product less motor vehicle output .....	9,072.9	107.2	130.6	65.5	43.1	5.0	6.0	3.0	1.9
Final sales of computers .....						76.2	55.4	40.6	18.6
Gross domestic product less final sales of computers .....						4.3	5.2	1.8	.9

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4.

### Personal Consumption Expenditures

Consumer spending slowed in the fourth quarter. Real personal consumption expenditures (PCE) increased 2.8 percent after increasing 4.5 percent in the third quarter (table 4 and chart 2). Over the current expansion, PCE has increased at an average annual rate of 3.8 percent. The fourth-quarter slowdown reflected a downturn in durable goods and a deceleration in nondurable goods. In contrast, services stepped up.

Expenditures for durable goods decreased 2.8 percent after increasing 7.6 percent. Motor vehicles and parts turned down, primarily reflecting a downturn in light trucks. Furniture and household equipment and "other" durable goods increased substantially less than in the third quarter.<sup>6</sup>

Expenditures for nondurable goods slowed to a 0.8-percent increase after a 4.7-percent increase. Clothing and shoes turned down, and "other" nondurable goods increased much less than in the third quarter.<sup>7</sup>

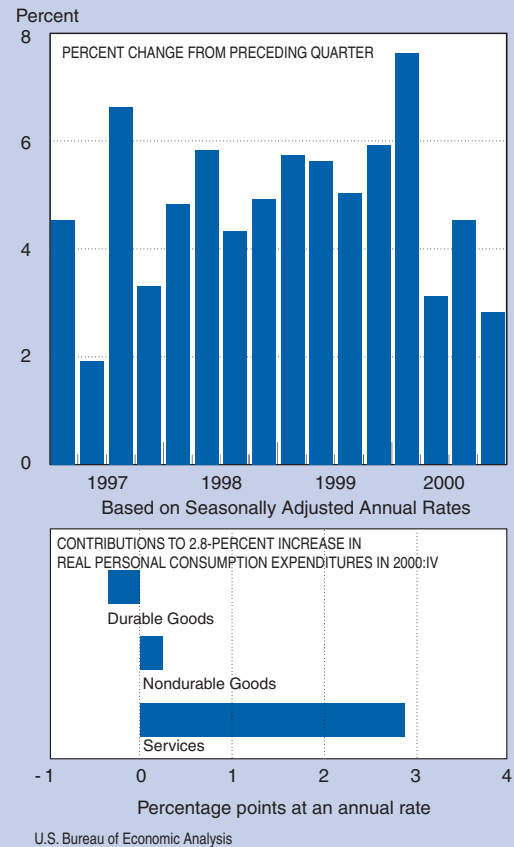
Expenditures for services increased 5.0 percent after increasing 3.7 percent. Electricity and gas turned up, reflecting a colder-than-usual fourth

6. "Other" durable goods includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

7. "Other" nondurable goods includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

#### CHART 2

### Real Personal Consumption Expenditures



**Table 4.—Real Personal Consumption Expenditures**

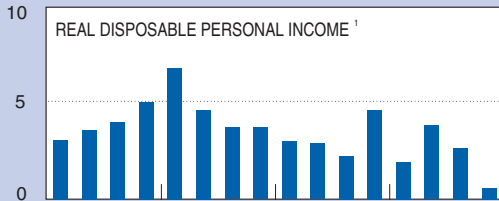
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2000	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
<b>Personal consumption expenditures</b> .....	<b>6,373.7</b>	<b>112.5</b>	<b>47.1</b>	<b>69.2</b>	<b>43.9</b>	<b>7.6</b>	<b>3.1</b>	<b>4.5</b>	<b>2.8</b>
Durable goods .....	896.7	46.4	-11.5	16.5	-6.5	23.6	-5.0	7.6	-2.8
Motor vehicles and parts .....	332.3	20.9	-15.9	6.1	-9.7	27.7	-16.9	7.5	-10.9
Of which:									
New autos .....	98.1	5.6	-3.7	-4.0	-3.2	23.6	-13.0	-14.4	-11.9
New light trucks .....	103.9	10.3	-7.8	7.0	-3.7	49.2	-25.7	30.7	-13.1
Furniture and household equipment .....	390.8	15.9	5.2	7.9	3.6	19.1	5.6	8.6	3.7
Other .....	178.6	9.1	1.0	2.6	1.0	24.1	2.3	6.1	2.3
Nondurable goods .....	1,886.4	26.7	16.3	21.5	3.8	6.0	3.6	4.7	.8
Food .....	881.3	6.2	4.3	2.6	2.2	2.9	2.0	1.2	1.0
Clothing and shoes .....	349.9	15.6	4.6	7.9	-3	20.9	5.6	9.5	-4
Gasoline, fuel oil, and other energy goods .....	149.2	-5.7	1.7	2.0	-3	-14.0	4.5	5.7	-7
Other .....	508.1	11.9	5.9	9.4	2.2	10.3	4.9	7.8	1.7
Services .....	3,603.3	44.2	39.5	32.6	44.0	5.2	4.6	3.7	5.0
Housing .....	856.8	4.9	5.6	4.7	5.1	2.4	2.7	2.3	2.4
Household operation .....	380.4	5.4	10.1	.4	5.2	6.1	11.6	.4	5.7
Electricity and gas .....	138.6	2.3	6.5	-2.6	4.7	7.2	21.4	-7.4	14.9
Other household operation .....	241.4	3.2	3.7	3.0	.3	5.6	6.4	5.2	.5
Transportation .....	252.4	2.5	2.4	.9	1.6	4.2	3.9	1.5	2.5
Medical care .....	916.5	4.6	6.4	5.3	7.4	2.1	2.9	2.4	3.3
Recreation .....	242.4	5.1	4.9	4.5	5.7	9.6	9.0	7.9	10.1
Other .....	953.2	21.3	10.6	16.3	18.9	9.9	4.8	7.3	8.3

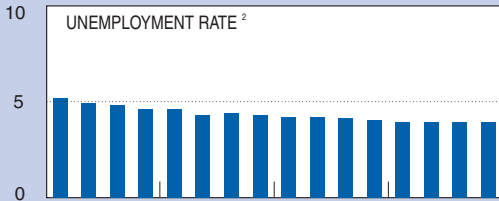
NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

**CHART 3****Selected Factors  
Affecting Consumer Spending**

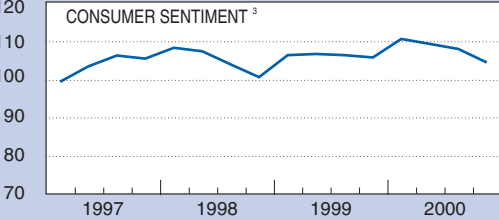
Percent change



Percent



Index



1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center

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quarter after a milder-than-usual third quarter. Each of the other categories of services increased more than in the third quarter.

Factors frequently considered in analyses of consumer spending have turned somewhat less favorable in recent quarters (chart 3). Real disposable personal income slowed in both the third and fourth quarters. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) decelerated for the third consecutive quarter. Household wealth was adversely affected by the recent decline in equity prices. The unemployment rate remained flat in the fourth quarter, at 4.0 percent.

### Private Fixed Investment

In the fourth quarter, fixed investment fell for the first time in 5 ½ years. Real private fixed investment decreased 1.3 percent after increasing 3.1 percent in the third quarter (table 5 and chart 4). Nonresidential investment decreased a little after increasing; residential investment decreased less than in the third quarter.

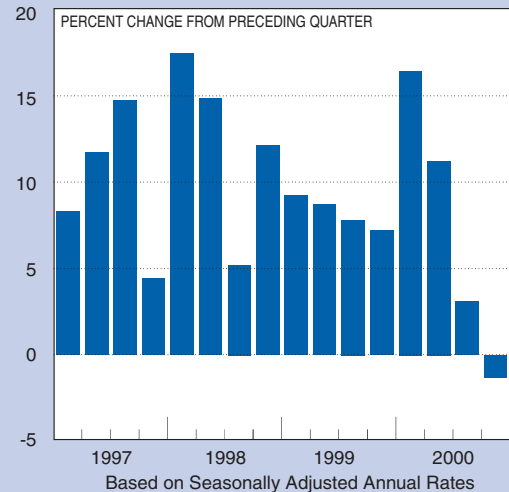
*Nonresidential fixed investment.*—Real private nonresidential fixed investment decreased 0.6 percent after increasing 7.7 percent; the decrease was the first since the first quarter of 1992. Equipment and software turned down, and structures decelerated. All the components of equipment and software weakened. Computers slowed sharply, registering its smallest percentage increase in 7 years. Transportation equipment decreased twice as much as in the third quarter; the last time transportation equipment decreased a comparable amount was in the second quarter of 1995.

Several aspects of the investment climate have become less favorable in recent quarters. Real final sales of domestic product slowed in each of the past three quarters. Domestic corporate profits

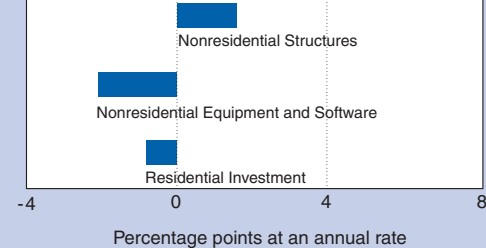
#### CHART 4

### Real Private Fixed Investment

Percent



CONTRIBUTIONS TO -1.3-PERCENT DECREASE IN REAL PRIVATE FIXED INVESTMENT IN 2000:IV



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**Table 5.—Real Private Fixed Investment**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2000	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
<b>Private fixed investment</b> .....	<b>1,785.5</b>	<b>64.3</b>	<b>46.7</b>	<b>13.7</b>	<b>-5.8</b>	<b>16.4</b>	<b>11.2</b>	<b>3.1</b>	<b>-1.3</b>
Nonresidential .....	1,436.5	63.5	47.2	26.3	-2.3	21.0	14.6	7.7	-6.8
Structures .....	292.7	13.4	3.0	9.6	6.1	22.3	4.4	14.6	8.8
Nonresidential buildings, including farm .....	205.7	11.4	3.0	3.2	3.0	27.1	6.2	6.6	6.0
Utilities .....	47.5	.9	-2.1	2.8	1.9	8.6	-17.4	28.6	17.8
Mining exploration, shafts, and wells .....	31.9	1.5	2.3	2.1	1.4	27.0	40.9	33.3	19.7
Other structures .....	7.9	-6	-4	1.6	-2	-27.2	-24.3	147.1	-8.0
Equipment and software .....	1,152.1	50.3	46.2	15.8	-10.3	20.6	17.9	5.6	-3.5
Information processing equipment and software .....	713.4	41.5	39.7	26.5	17.8	31.4	27.7	16.8	10.7
Computers and peripheral equipment <sup>1</sup> .....	331.0	20.3	33.2	27.0	6.7	37.8	60.5	41.6	8.6
Software <sup>2</sup> .....	241.1	9.7	9.5	9.8	6.8	20.3	18.9	18.6	12.2
Other .....	202.3	15.7	9.3	.9	4.8	41.9	21.4	1.7	10.1
Industrial equipment .....	166.4	6.1	5.1	3.4	-1.0	16.9	13.5	8.5	-2.3
Transportation equipment .....	171.1	1.4	1.9	-8.6	-19.5	2.9	3.9	-16.1	-35.1
Of which: Motor vehicles .....	135.7	4.4	-8.0	-4.4	-18.7	11.4	-17.8	-10.6	-40.4
Other .....	137.9	5.2	3.4	-1.1	-2.4	16.6	10.2	-3.3	-6.7
Residential .....	359.1	2.9	1.2	-10.3	-3.2	3.2	1.3	-10.6	-3.4
Structures .....	349.4	2.6	1.1	-10.3	-3.2	2.9	1.3	-10.9	-3.6
Single-family .....	183.9	7.0	-2.3	-8.6	-1.0	15.6	-4.5	-16.7	-2.2
Multifamily .....	22.1	.8	-2	-1.8	.3	14.7	-2.5	-27.7	7.1
Other structures <sup>3</sup> .....	143.4	-5.5	3.7	.3	-2.6	-13.9	10.6	.9	-7.0
Equipment .....	9.9	.4	0	.1	.1	16.4	1.9	1.2	4.6

1. Includes new computers and peripheral equipment only.

2. Excludes software "embedded," or bundled, in computers and other equipment.

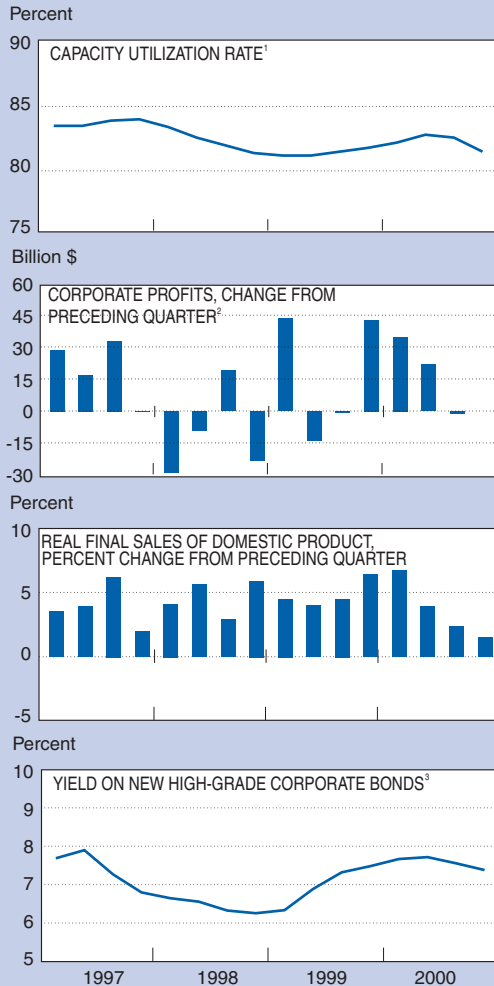
3. Other structures includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which

consists primarily of dormitories and of fraternity and sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

CHART 5

### Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board

2. Domestic industries.

3. Data: U.S. Treasury Department

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slowed in the first two quarters of 2000 and decreased in the third.<sup>8</sup> The capacity utilization rate edged down in the third quarter and dropped further in the fourth. One of the few bright spots was a decrease in long-term interest rates; for example, the yield on high-grade corporate bonds decreased from 7.85 percent in May to 7.21 percent in December (chart 5).

*Residential investment.*—Real private residential investment decreased 3.4 percent after decreasing 10.6 percent. Single-family structures decreased much less than in the third quarter, and multifamily structures turned up. In contrast, “other” residential structures decreased after a small increase, largely reflecting a downturn in brokers’ commissions on home sales.<sup>9</sup>

8. Fourth-quarter corporate profits will be released along with “final” estimates of fourth-quarter GDP at the end of March.

9. “Other” residential structures includes home improvements, new manufactured home sales, brokers’ commissions on home sales, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

### Inventory Investment

Inventories grew at a slower pace in the fourth quarter. Inventory accumulation stepped down to \$59.5 billion from \$72.5 billion (table 6 and chart 6).

Real inventory investment—that is, change in private inventories—decreased \$13.0 billion in the fourth quarter after decreasing \$6.1 billion in the third. The fourth-quarter decrease in inventory investment was accounted for by wholesale trade and manufacturing. Inventory investment in retail trade increased.

Wholesale trade inventories increased \$12.3 billion, about half as much as in the third quarter. Inventories of merchant wholesalers increased \$9.4 billion after increasing \$15.8 billion. The slowdown reflected downturns in inventories of professional and commercial equipment and of farm

products that were only partly offset by an upturn in inventories of motor vehicles. Inventories of nonmerchant wholesalers increased \$2.8 billion after increasing \$6.3 billion; inventories of both durable and nondurable goods contributed to the slowdown.

Manufacturing inventories increased \$14.9 billion after increasing \$22.6 billion. The slowdown was more than accounted for by a downturn in inventories of nondurable-goods manufacturers: Inventories of chemical and allied products increased substantially less than in the third quarter, and inventories of printing and publishing, of paper, and of tobacco turned down.

Retail trade inventories increased \$24.3 billion after increasing \$20.0 billion; the step-up was partly accounted for by an upturn in inventories of furniture and furnishings.

**Table 6.—Real Change in Private Inventories**

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1999	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
Change in private inventories .....	80.9	36.6	78.6	72.5	59.5	-44.3	42.0	-6.1	-13.0
Farm .....	7.9	3.6	6.2	5.0	5.2	-4.3	2.6	-1.2	.2
Nonfarm .....	73.0	33.0	72.3	67.4	54.4	-40.0	39.3	-4.9	-13.0
Manufacturing .....	7.6	10.3	17.6	22.6	14.9	2.7	7.3	5.0	-7.7
Durable goods .....	3.3	6.5	11.3	15.4	19.0	3.2	4.8	4.1	3.6
Nondurable goods .....	4.2	3.8	6.4	7.2	-3.4	-4	2.6	.8	-10.6
Wholesale trade .....	18.5	21.5	32.5	22.3	12.3	3.0	11.0	-10.2	-10.0
Durable goods .....	15.2	17.3	23.8	10.6	7.7	2.1	6.5	-13.2	-2.9
Nondurable goods .....	3.4	4.4	8.9	11.4	4.6	1.0	4.5	2.5	-6.8
Retail trade .....	41.7	-4.4	21.5	20.0	24.3	-46.1	25.9	-1.5	4.3
Durable goods .....	27.7	-3.6	16.0	13.9	15.7	-31.3	19.6	-2.1	1.8
Of which: Motor vehicle dealers .....	14.7	-6.4	9.7	10.5	8.2	-21.1	16.1	.8	-2.3
Nondurable goods .....	14.2	-.8	5.7	6.2	8.7	-15.0	6.5	.5	2.5
Other .....	4.2	6.1	.9	2.8	2.8	1.9	-5.2	1.9	0
Durable goods .....	1.9	1.3	-1.5	.2	1.0	-6	-2.8	1.7	.8
Nondurable goods .....	2.2	4.8	2.5	2.6	1.8	2.6	-2.3	.1	-.8
Addenda:									
Motor vehicles .....	14.4	-2.0	14.7	6.4	9.7	-16.4	16.7	-8.3	3.3
Autos .....	4.7	.4	2.3	8.9	5.7	-4.3	1.9	6.6	-3.2
Trucks .....	9.1	-2.1	11.2	-1.8	4.0	-11.2	13.3	-13.0	5.8

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11 and 8.9B (motor vehicles).



Farm inventories increased \$5.2 billion, about the same as in the third quarter. Crop inventories accounted for the increase in both quarters.

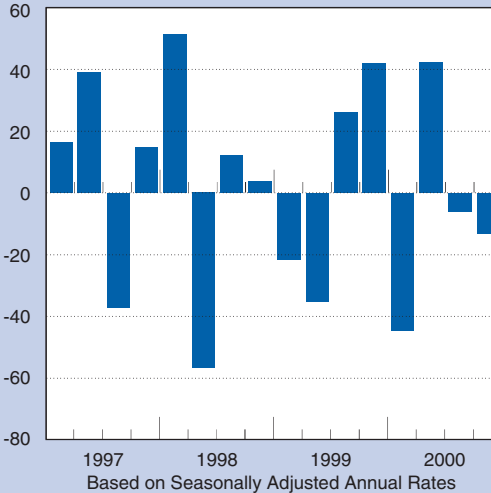
The ratio of real private nonfarm inventories to final sales of goods and structures increased to 3.66 from 3.61 (see NIPA table 5.13); despite the jump, the ratio remained low relative to its level over the current expansion. An inventory-sales ratio that includes all final sales of domestic businesses in its denominator presents a somewhat different picture; this ratio, which increased to 2.09 from 2.08, was a little below the middle of the range in which it has moved during the expansion.<sup>10</sup>

10. The ratio that includes all final sales of domestic businesses in the denominator suggests that the production of services results in a demand for inventories similar to that generated in the production of goods and structures. In contrast, the "goods and structures" ratio suggests that the production of services does not generate any demand for inventories. Both suggestions are extreme. In actuality, the production of some services may require substantial inventories, while production of other services may not.

**CHART 6**

**Real Private Inventory Investment:  
Change from Preceding Quarter**

Billion chained (1996) \$



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## Exports and Imports

In the fourth quarter, exports decreased for the first time in almost 2 years, and imports decreased for the first time in almost 10 years. Real exports decreased 6.1 percent after increasing 13.9 percent in the third quarter (table 7 and chart 7). Real imports decreased 0.7 percent after increasing 17.0 percent in the third quarter (chart 8).

The downturn in exports was more than accounted for by goods. All major end-use categories

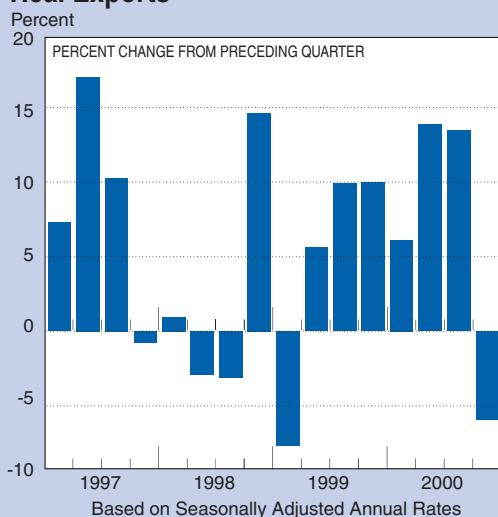
decreased in the fourth quarter after increasing in the third. The sharpest downturns were in nonautomotive capital goods, in foods, feeds, and beverages, and in industrial supplies and materials.

Exports of services increased a little after decreasing. Royalties and license fees turned up, and "other" private services decreased less than in the third quarter.<sup>11</sup>

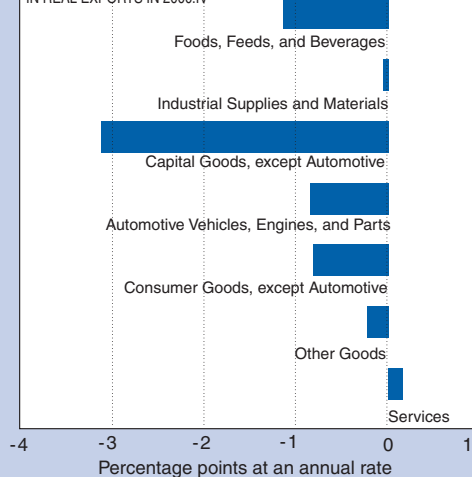
11. "Other" private services includes education; financial services; telecommunications; insurance; and business, professional, and technical services.

### CHART 7

#### Real Exports



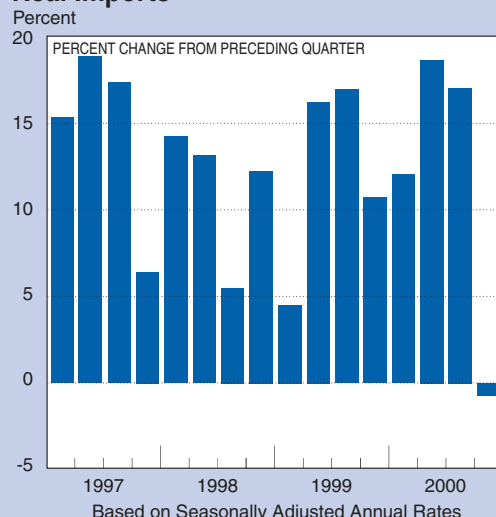
#### CONTRIBUTIONS TO -6.1-PERCENT DECREASE IN REAL EXPORTS IN 2000:IV



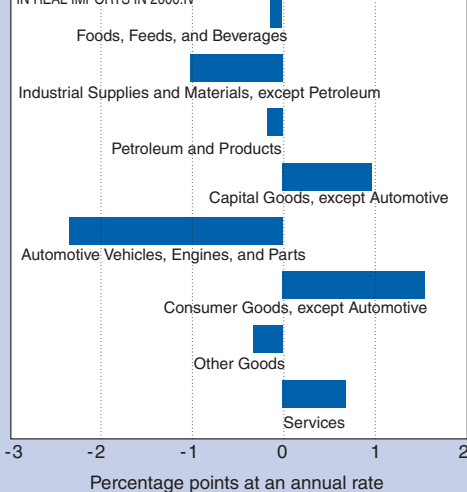
U.S. Bureau of Economic Analysis

### CHART 8

#### Real Imports



#### CONTRIBUTIONS TO -0.7-PERCENT DECREASE IN REAL IMPORTS IN 2000:IV



U.S. Bureau of Economic Analysis

Imports of goods decreased 1.6 percent. All major end-use categories contributed to the decrease except nonautomotive capital goods and nonautomotive consumer goods. The largest decreases were in autos and in industrial supplies and materials.

Imports of services increased 4.7 percent after jumping 22.3 percent. A downturn in royalties and license fees partly accounted for the deceleration; in the third quarter, license fees had been boosted by payments for the rights to broadcast the 2000 Summer Olympic Games.

**Table 7.—Real Exports and Imports of Goods and Services**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				2000			
	2000	2000							
	IV	I	II	III	IV	I	II	III	IV
<b>Exports of goods and services</b> .....	<b>1,140.7</b>	<b>16.4</b>	<b>37.0</b>	<b>37.0</b>	<b>-18.1</b>	<b>6.3</b>	<b>14.3</b>	<b>13.9</b>	<b>-6.1</b>
Exports of goods <sup>1</sup> .....	855.1	11.6	35.4	40.7	-19.1	6.0	19.0	21.0	-8.5
Foods, feeds, and beverages .....	60.5	1.0	-5	5.8	-4.2	6.4	-3.3	45.7	-23.3
Industrial supplies and materials .....	173.3	1.3	3.7	8.1	-2	3.5	9.4	21.0	-5
Capital goods, except automotive .....	406.4	2.8	34.3	20.8	-9.9	3.2	43.6	22.9	-9.2
Automotive vehicles, engines, and parts .....	76.4	2.6	-4	.6	-2.4	14.3	-2.1	3.2	-11.6
Consumer goods, except automotive .....	88.5	3.5	1.2	3.0	-2.3	17.9	5.7	14.8	-9.9
Other .....	51.5	.1	-1.7	3.2	-7	.7	-12.5	28.2	-5.3
Exports of services <sup>1</sup> .....	289.3	4.8	2.5	-2.1	.4	6.9	3.5	-2.8	.4
<b>Imports of goods and services</b> .....	<b>1,583.6</b>	<b>40.8</b>	<b>63.5</b>	<b>61.2</b>	<b>-2.8</b>	<b>12.0</b>	<b>18.6</b>	<b>17.0</b>	<b>-7</b>
Imports of goods <sup>1</sup> .....	1,358.4	32.8	58.6	50.1	-5.6	11.2	20.0	16.2	-1.6
Foods, feeds, and beverages .....	50.6	-1	1.5	2.3	-5	-3	13.0	20.0	-4.0
Industrial supplies and materials, except petroleum and products .....	166.4	2.0	-1.3	4.6	-3.6	4.9	-3.0	11.6	-8.3
Petroleum and products .....	86.6	5.2	6.5	-1.1	-5	30.3	35.3	-4.9	-2.0
Capital goods, except automotive .....	485.9	13.9	33.7	27.4	4.9	14.4	36.2	26.5	4.2
Automotive vehicles, engines, and parts .....	190.1	4.9	1.4	6.8	-8.7	11.1	3.1	14.9	-16.4
Consumer goods, except automotive .....	298.6	8.7	17.7	4.2	6.2	13.9	28.9	5.9	8.8
Other .....	91.0	-2.0	2.0	10.0	-1.2	-9.2	10.0	58.7	-5.2
Imports of services <sup>1</sup> .....	227.4	7.8	5.3	11.1	2.6	16.6	10.6	22.3	4.7

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

## Government Spending

Government spending continued its up-and-down pattern of recent quarters. Real spending increased 2.7 percent after decreasing 1.4 percent in the third quarter (table 8 and chart 9). Federal Government spending more than accounted for the upturn; State and local government spending slowed.

Federal defense spending increased 8.8 percent after decreasing 9.7 percent. Investment increased sharply after decreasing, reflecting an upturn in equipment and software. Consumption spending also increased after decreasing, reflecting an upturn in "other services."<sup>12</sup>

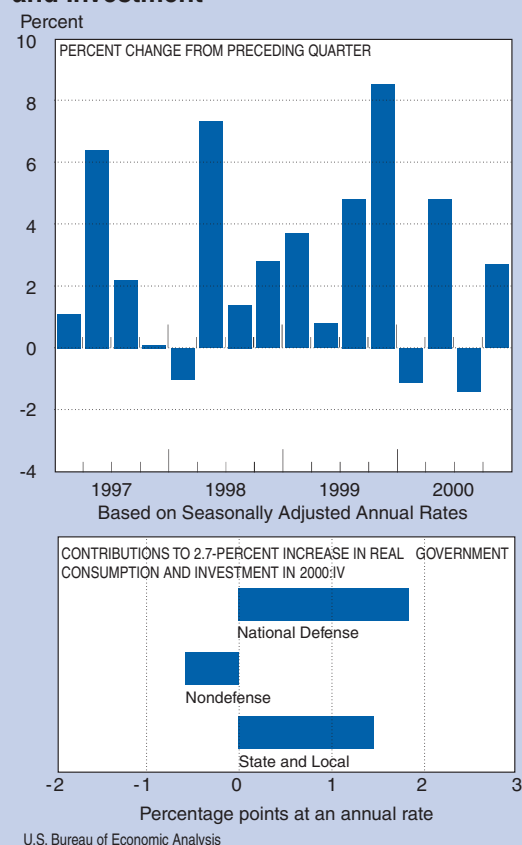
Federal nondefense spending decreased less than in the third quarter, reflecting an upturn in investment spending, primarily for equipment and software.

State and local government spending increased 2.2 percent after increasing 2.9 percent, reflecting a slowdown in consumption spending. A pickup in investment spending was attributable to structures.

12. "Other services" includes contractual research and development, installation support, weapons support, personnel support, transportation of material, and travel of persons.

### CHART 9

## Real Government Consumption and Investment



**Table 8.—Real Government Consumption Expenditures and Gross Investment**

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2000	2000				2000			
	IV	I	II	III	IV	I	II	III	IV
<b>Government consumption expenditures and gross investment<sup>1</sup></b>	<b>1,588.9</b>	<b>-4.4</b>	<b>18.6</b>	<b>-5.5</b>	<b>10.7</b>	<b>-1.1</b>	<b>4.8</b>	<b>-1.4</b>	<b>2.7</b>
Federal	550.8	-21.0	21.7	-13.0	5.0	-14.2	17.2	-9.0	3.7
National defense	353.6	-19.4	13.6	-8.9	7.4	-19.8	16.9	-9.7	8.8
Consumption expenditures	291.9	-18.3	12.7	-7.9	1.4	-22.0	19.0	-10.1	1.9
Gross investment	62.6	-9	7	-1.0	6.6	-6.1	5.4	-7.0	55.7
Nondefense	197.1	-1.7	8.2	-4.2	-2.3	-3.3	17.8	-7.9	-4.6
Consumption expenditures	148.1	1.1	5.4	-3.5	-3.8	3.0	15.1	-8.6	-9.9
Gross investment	50.1	-3.1	3.0	-7	1.8	-22.4	27.7	-5.4	15.7
State and local	1,037.5	16.2	-2.8	7.3	5.6	6.6	-1.1	2.9	2.2
Consumption expenditures	824.1	6.1	5.3	5.7	3.3	3.1	2.6	2.9	1.6
Gross investment	213.7	10.3	-8.4	1.5	2.4	21.3	-14.5	2.9	4.6

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

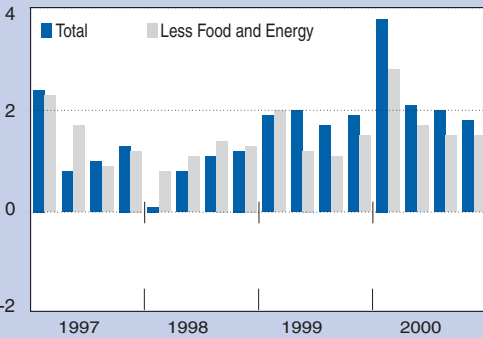
## Prices

Inflation remained moderate in the fourth quarter, as the prices of gross domestic purchases increased 1.8 percent, a little less than in the preceding two quarters (table 9 and chart 10). The small deceleration was accounted for by food and energy prices; excluding these items, prices of gross domestic purchases increased 1.5 percent, the same as in the third quarter.

**CHART 10**

### Gross Domestic Purchases Prices: Change From Preceding Quarter

Percent



Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

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Prices of PCE and of government spending increased about as much as in the third quarter. Prices of nonresidential fixed investment decreased slightly after three consecutive quarterly increases; the downturn was partly accounted for by software prices.

**Table 9.—Percent Changes in Prices**

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

	2000			
	I	II	III	IV
<b>Gross domestic product</b> .....	<b>3.3</b>	<b>2.4</b>	<b>1.6</b>	<b>1.9</b>
Less: Exports of goods and services .....	1.9	1.9	.7	.6
Plus: Imports of goods and services .....	5.6	.2	3.8	.3
<b>Equals: Gross domestic purchases</b> .....	<b>3.8</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>
Less: Change in private inventories .....				
<b>Equals: Final sales to domestic purchasers</b> .....	<b>3.8</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>
Personal consumption expenditures .....	3.5	2.1	1.8	1.9
Durable goods .....	-2.0	-6	-2.3	-1.1
Nondurable goods .....	5.4	3.3	2.2	2.0
Services .....	3.7	2.0	2.5	2.5
Private fixed investment .....	2.6	1.9	2.0	.7
Nonresidential .....	1.8	1.6	1.8	-1
Structures .....	4.7	3.7	5.0	4.9
Equipment and software .....	.9	1.0	.8	-1.7
Residential .....	5.2	2.6	2.7	3.7
Government consumption expenditures and gross investment .....	6.4	2.7	2.9	2.7
Federal .....	7.7	.6	2.6	1.4
National defense .....	7.1	.8	2.9	1.3
Nondefense .....	8.9	.4	2.1	1.7
State and local .....	5.7	3.8	3.1	3.4
<b>Addenda:</b>				
Gross domestic purchases:				
Food .....	2.3	2.3	3.5	1.8
Energy .....	37.7	11.2	11.1	10.2
Less food and energy .....	2.8	1.7	1.5	1.5
Personal consumption expenditures:				
Food .....	2.4	2.3	3.7	1.6
Energy goods and services <sup>1</sup> .....	35.1	13.0	8.6	8.9
Less food and energy .....	2.2	1.4	1.1	1.6

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

## Revisions

In general, the revisions to the fourth-quarter estimates were small. The preliminary estimate of a 1.1-percent increase in real GDP in the fourth quarter is 0.3 percentage point lower than the ad-

**Table 10.—Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 2000**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>1.4</b>	<b>1.1</b>	<b>-0.3</b>	<b>-7.3</b>
Less: Exports .....	-4.3	-6.1	-1.8	-5.5
Goods .....	-6.0	-8.5	-2.5	-5.7
Services .....	.5	.4	-.1	0
Plus: Imports .....	.5	-.7	-1.2	-4.8
Goods .....	-.4	-1.6	-1.2	-4.2
Services .....	5.8	4.7	-1.1	-.5
<b>Equals: Gross domestic purchases</b> .....	<b>1.9</b>	<b>1.6</b>	<b>-.3</b>	<b>-6.5</b>
Less: Change in private inventories .....				-7.6
Farm .....				.5
Nonfarm .....				-8.0
<b>Equals: Final sales to domestic purchasers</b> .....	<b>2.1</b>	<b>2.1</b>	<b>0</b>	<b>0</b>
Personal consumption expenditures .....	2.9	2.8	-.1	-.9
Durable goods .....	-3.4	-2.8	.6	1.2
Nondurable goods .....	.8	.8	0	.1
Services .....	5.3	5.0	-.3	-2.0
Fixed investment .....	-1.7	-1.3	.4	1.8
Nonresidential .....	-1.5	-.6	.9	2.9
Structures .....	9.3	8.8	-.5	-.4
Equipment and software .....	-4.7	-3.5	1.2	3.5
Residential .....	-2.5	-3.4	-.9	-.9
Government consumption expenditures and gross investment .....	2.9	2.7	-.2	-.7
Federal .....	4.6	3.7	-.9	-1.1
National defense .....	10.2	8.8	-1.4	-1.1
Nondefense .....	-4.5	-4.6	-.1	0
State and local .....	2.1	2.2	.1	.4
<b>Addenda:</b>				
Final sales of domestic product .....	1.6	1.5	-.1	-.7
Gross domestic purchases price index .....	1.9	1.8	-.1	
GDP price index .....	2.1	1.9	-.2	

NOTE.—The preliminary estimates for the fourth quarter of 2000 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Retail sales for November and December (revised), consumers' share of new-car purchases for December, average unit value for domestic new autos for December (revised), and consumers' share of new-truck purchases for December.

*Nonresidential fixed investment:* Construction put-in-place for October and November (revised) and December, manufacturers' shipments of machinery and equipment for November and December (revised), manufacturers' shipments of complete civilian aircraft for November (revised) and December, and exports and imports of machinery and equipment for November (revised) and December.

*Residential fixed investment:* Construction put-in-place for October and November (revised) and December.

*Change in private inventories:* Manufacturing and trade inventories for November (revised) and December.

*Exports and imports of goods and services:* Exports and imports of goods for November (revised) and December.

*Government consumption expenditures and gross investment:* Monthly Treasury Statement detailed data for December, Department of Defense detailed financial reports for the fourth quarter, and State and local government construction put-in-place for October and November (revised) and December.

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for November and December (revised).

*GDP prices:* Detailed merchandise export and import price indexes for October through December (revised), unit-value index for petroleum imports for November (revised) and December, and housing prices for the fourth quarter.

vance estimate (table 10); for 1981–2000, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The major contributors to the 0.3-percentage point downward revision were change in private nonfarm inventories (which contributed –0.30 percentage point), exports (–0.21 percentage point), and PCE for services (–0.09 percentage point). The negative contributions of those components were partly offset by positive contributions from imports (0.18 percentage point) and from private nonresidential investment in equipment and software (0.13 percentage point).

The downward revision to private nonfarm inventory investment was mostly attributable to inventories of merchant wholesalers and primarily reflected the incorporation of newly available Census Bureau data on inventories for December and revised data for November.

The downward revisions to exports and imports mainly reflected the incorporation of newly available Census Bureau data on trade in goods for December and revised data for November.

The downward revision to PCE for services was more than accounted for by local and long-distance telephone services and reflected the incorporation of newly available data from company reports for the quarter.

The upward revision to private nonresidential investment in equipment and software reflected the incorporation of newly available Census Bureau data on aircraft shipments for December and revised data for November. It also reflected the incorporation of newly available data on imports of aircraft for December.

The preliminary estimate of a 0.7-percent increase in real disposable personal income (DPI) is 0.1 percentage point more than the advance estimate. The upward revision reflected a downward revision to the implicit price deflator for PCE, which is used to deflate current-dollar DPI. The increase in current-dollar DPI was revised down 0.1 percentage point, largely reflecting a small downward revision to personal income. The personal saving rate of –0.8 percent was unrevised.